

Office of Chief Counsel
Internal Revenue Service
Memorandum

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(Small Business/Self-Employed)

from: Christopher F. Kane
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subject: Florida Disaster Relief

This memorandum responds to your request for assistance. This advice may not be used or cited as precedent.

ISSUE

Whether refunds of state taxes are taxable if the taxpayer has benefited from a deduction for the payment of such taxes in a prior tax year.

CONCLUSION

Generally, taxpayers who receive a reimbursement of real property tax or sales tax, and who deducted the real property tax or sales tax on their federal income tax return for a prior year, must include the amount of the reimbursement in income up to the extent they benefited from the prior income tax deduction.

FACTS

Residents of the State of Florida may apply to their county property appraiser for a sales tax reimbursement of up to \$1,500 if they purchased a mobile home to replace a mobile home that suffered major damage from tornados that occurred on December 25, 2006 and February 2, 2007 and the mobile home was their permanent residence.

Residents of the State of Florida may apply to their county property appraiser for a property tax reimbursement of up to \$1,500 if their home was uninhabitable for 60 days or more as a result of damage from a tornado that occurred on February 2, 2007.

DISCUSSION

The following language is a suggestion for a news release on the federal income tax consequences of state refunds of sales and property taxes in the State of Florida:

Tornado relief in the form of reimbursements of real property taxes or sales taxes paid to a state or local government may be subject to federal income tax. Generally, taxpayers who receive a reimbursement of real property tax or sales tax, and who deducted the real property tax or sales tax on their federal income tax return for a prior year, must include the amount of the reimbursement in income up to the extent they benefited from the prior income tax deduction.

Taxpayers who receive tornado relief during 2008 in the form of reimbursements of real property taxes or sales taxes that they paid in 2007, and who deducted those property taxes or sales taxes on a 2007 Form 1040 federal income tax return, should ensure that their tax reimbursement is properly reported when filing their 2008 federal income tax returns. Taxpayers who did not deduct real property taxes or sales taxes paid during 2007 on a 2007 Form 1040 are not required to report the reimbursement of those taxes on their 2008 federal income tax returns. Similarly, taxpayers who properly filed a 2007 Form 1040EZ or Form 1040A federal income tax return are not required to report reimbursements of real property and sales taxes paid during 2007 on their 2008 federal income tax returns.

Taxpayers should note that if they receive a reimbursement during 2007 for a real property tax or sales tax paid during 2007, the amount of state and local government tax that they may deduct on their 2007 federal income tax return must be reduced by the amount of the reimbursement.

For more information on reimbursements, see the topic of Recoveries under the Miscellaneous Income section of IRS Publication 525, "Taxable and Nontaxable Income." For general tax information on disasters, see IRS Publication 547 "Casualties, Disasters, and Thefts." The IRS Publications and additional information can be found on www.irs.gov. The IRS toll-free number for general tax questions is 1-800-829-1040.